Two Backlashes: Targeted Reforms and Supply Chain Management

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The Current Backlash

Managed care plans—fresh from extraordinary success in capturing market share—are under pressure. An admixture of disenchantment, suspicion, anxiety, anger, and calculation, on the part of patients and those who intend to represent them, has led to intense—and, from the standpoint of managed care plans, unwelcome—legislative scrutiny. And with this scrutiny has come all manner of legislative activity, some of it narrowly targeted to eliminate particular restrictions on care deemed unreasonable (for example, so-called drive-through deliveries) and some of it considerably more ambitious (most prominently, the patients' rights bills that, at this writing, are pending before Congress).

All of this may constitute a backlash, but it is, in two senses, confined. First, it is not a backlash accompanied by an exodus. Enrollment in managed care plans continues to grow, among both the privately and publicly insured. (Among the privately insured, the growth has slowed, but that is not surprising given the levels of market penetration already achieved.) Second, while there continue to be calls from some quarters for a rollback of managed care and a return to the anterior arrangements, as remembered or imagined, the current backlash has for the most part focused on proposals to constrain, in order to improve, managed care—not on initiatives to reduce its incidence. What is at issue, and at stake, in the instant debate is the perpetuation of a fluctuating set of practices and features associated, or thought to be associated, with managed

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care—not the very idea of managed care, however muzzy and variously defined that idea may be.

Indeed, the present backlash is best understood as the exercise of what Albert O. Hirschman, in his classic book *Exit, Voice, and Loyalty*, terms *voice* and defines as "any attempt at all to change, *rather than escape from*, an objectionable state of affairs, whether through individual or collective petition to the management directly in charge, through appeal to a higher authority with the intention of forcing a change in management, or through various types of actions and protests, including those that are meant to mobilize public opinion" (1970: 30) (my emphasis). The alternative—of *exit*—would be much more disturbing, disruptive, and deleterious to managed care plans. If voice fails to remedy what are perceived as lapses or deteriorations in the quality of services received from these plans, it could be succeeded by exit—which is why, given the givens, managed care plans should be working to shape and confine legislation, rather than to resist it altogether.

The current backlash is animated by a core perception and a corresponding conviction. The perception is that managed care plans are systematically reducing—indeed, that they are designed to systematically reduce—the quantity of care received by patients, the choices of care and caregivers available to patients, and the discretion of physicians. The conviction is that by so doing, the plans are reducing the quality of care as well. The managers of managed care plans thus have two other challenges in responding to this backlash. First, they need to make the case, as it used to be made by Kaiser and other pioneering health maintenance organizations, that by monitoring and coordinating care, and by emphasizing prevention, they improve the quality of care and promote the health of their patients. And second, and more important, they need to deliver, measurably, on that half of their value proposition—or risk the consequences.

The Next Backlash

The other half of the basic value proposition of managed care plans is, of course, that their premiums are lower than those of traditional indemnity plans—and that they can keep annual premium increases lower as well. From 1994 through 1997, managed care plans delivered—with, some would say, a vengeance—on that promise. Over that period, as managed care plans competed for their fair shares (and, they hoped, more) of a massive influx of enrollees, premium increases averaged less than one

percent a year, even as underlying costs rose at a multiple of that rate. Not surprisingly, perhaps, managed care plans, buffeted by riptides of red ink, had to reverse course. Last year, they hiked premiums by an average of more than six percent; for this year, most observers project even higher premium inflation.

What this risks—indeed, invites—is a second and, from the perspective of managed care plans, dramatically more dangerous backlash. Large employers turned to managed care plans in the hope, and the expectation, that these plans would keep health insurance costs in check—and for four years they did. During those four years, large employers went through two changes that are relevant here. The first is that they became accustomed to tiny premium increases. Now they are unhappy. And the second is that they became increasingly adept, elsewhere in their operations, at what has come to be known as supply chain management—reaching to, and sometimes through, their direct suppliers in order to reduce costs at all stages of their supply chains. Now they are prepared to be more aggressive, and direct, in managing their health care supply chains, and less likely to cede that task to managed care plans that disappoint them.

The next backlash, then, will be from large employers—unsatisfied with the cost performance of their managed care plans, rankled by the administrative and marketing expenses of those plans, and less inclined to defer to their managerial expertise. Unless managed care plans move quickly to rein in costs again, more and more large companies will intervene—either by partnering with managed care plans to reduce costs jointly or by contracting directly with health care providers. Already, companies, and groups of companies, are experimenting with both approaches. If managed care plans prove unable to get their acts together quickly, their continued capacity to function as autonomous intermediaries, at least on behalf of large employers, may be sharply, and unceremoniously, challenged.

Reference

Hirschman, Albert O. 1970. *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Cambridge: Harvard University Press.